
LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/8/10



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LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Louisiana Artists Guild

We have audited the accompanying statements of financial position of Louisiana Artists Guild (the Guild) as of December 31, 2009 and 2008 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Guild's management. Our responsibility is to report on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Guild's internal control over financial reporting. Our audit included consideration of the internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Guild's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our report.

We were unable to obtain sufficient audit evidence relating to the carrying value of the Guild's Property, Plant and Equipment totaling \$24,953,975 and \$25,888,695 as of December 31, 2009 and 2008, respectively because the Guild did not perform an impairment valuation as required by U.S. generally accepted accounting principles. We were unable to satisfy ourselves about the valuation of the Property, Plant and Equipment by means of other auditing procedures.

The accompanying financial statements have been prepared assuming that the Guild will continue as a going concern. As discussed in Note 2 to the financial statements, the Guild is in default on certain covenants of its loan agreements at December 31, 2009, primarily as a result of construction costs in excess of funding and continuing operating losses. The Guild has a working capital deficiency of \$14,918,749 as of December 31, 2009 and was in arrears on certain vendor accounts. The Guild was able to negotiate settlements with certain vendors or obtain additional financing subsequent to year end; however the Guild was unable to obtain a waiver for one of the debt agreements and an additional debt agreement was in default subsequent to year end. The lenders may demand repayment of the loans. No such demand has been made. Negotiations are presently under way to obtain revised loan agreements to permit the realization of assets and the liquidation of liabilities in the ordinary course of business. The Guild cannot predict what the outcome of the negotiations will be. These conditions raise substantial doubt about the Guild's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Because of the significance of the uncertainty of the going concern matter discussed in the preceding paragraph and because we were unable to satisfy ourselves as to the carrying value of the Property, Plant and Equipment, as discussed in the second preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2010 on our consideration of the Guild's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Postlethwaite & Nettlesville

Metairie, Louisiana
November 16, 2010



LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009		
	Unrestricted	Temporarily Restricted	2009 Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 11,748	\$ -	\$ 11,748
Pledges receivable, current portion	60,853	2,729,485	2,790,338
Prepaid expenses	10,124	-	10,124
Construction account	70,633	-	70,633
Deposit	10,030	-	10,030
Inventory	71,503	-	71,503
Total current assets	234,891	2,729,485	2,964,376
<u>DEBT SERVICE RESERVE ACCOUNT</u>	740,413	-	740,413
<u>PROPERTY, PLANT, AND EQUIPMENT,</u> net of accumulated depreciation \$1,372,350	24,953,975	-	24,953,975
<u>TOTAL ASSETS</u>	\$ 25,929,279	\$ 2,729,485	\$ 28,658,764
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accrued liabilities	\$ 5,580,454	\$ -	\$ 5,580,454
Line of credit	2,526,048	-	2,526,048
Loan payable	7,047,138	-	7,047,138
Total current liabilities	15,153,640	-	15,153,640
<u>NON-CURRENT LIABILITIES</u>			
Due to Arts Council of New Orleans	1,489,922	-	1,489,922
<u>TOTAL LIABILITIES</u>	16,643,562	-	16,643,562
<u>NET ASSETS</u>	9,285,717	2,729,485	12,015,202
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 25,929,279	\$ 2,729,485	\$ 28,658,764

(continued)

**LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA**

**STATEMENTS OF FINANCIAL POSITION, CONTINUED
DECEMBER 31, 2009 AND 2008**

	2008		
	Unrestricted	Temporarily Restricted	2008 Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ (6,542)	\$ 20,000	\$ 13,458
Pledges receivable, current portion, net of discount of \$5,769	50,000	2,861,507	2,911,507
Prepaid expenses	66,483	-	66,483
Construction account	70,633	-	70,633
Deposit	10,030	-	10,030
Inventory	71,503	-	71,503
Total current assets	262,107	2,881,507	3,143,614
<u>DEBT SERVICE RESERVE ACCOUNT</u>	740,413	-	740,413
<u>PROPERTY, PLANT, & EQUIPMENT,</u> net of accumulated depreciation of \$434,760	25,888,695	-	25,888,695
<u>TOTAL ASSETS</u>	\$ 26,891,215	\$ 2,881,507	\$ 29,772,722
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accrued liabilities	\$ 2,721,500	\$ -	\$ 2,721,500
Line of credit	2,360,596	-	2,360,596
Total current liabilities	5,082,096	-	5,082,096
<u>NON-CURRENT LIABILITIES</u>			
Accrued liabilities, long term	2,062,132	-	2,062,132
Due to Arts Council of New Orleans	1,505,969	-	1,505,969
Line of credit	164,683	-	164,683
Loan payable	7,047,138	-	7,047,138
<u>TOTAL LIABILITIES</u>	15,862,018	-	15,862,018
<u>NET ASSETS</u>	11,029,197	2,881,507	13,910,704
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 26,891,215	\$ 2,881,507	\$ 29,772,722

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009		
	Unrestricted	Temporarily Restricted	2009 Total
<u>SUPPORT AND REVENUE</u>			
Support			
Grants and contributions	\$ 309,754	\$ 226,293	\$ 536,047
Revenue			
Interest and other income	69,990	-	69,990
Total support and revenue	<u>379,744</u>	<u>226,293</u>	<u>606,037</u>
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>			
	<u>378,315</u>	<u>(378,315)</u>	<u>-</u>
<u>EXPENSES</u>			
Development	12,440	-	12,440
Administration	1,514,577	-	1,514,577
Building operations	908,527	-	908,527
Programs	65,889	-	65,889
Retail store	106	-	106
Total expenses	<u>2,501,539</u>	<u>-</u>	<u>2,501,539</u>
<u>CHANGE IN NET ASSETS</u>	(1,743,480)	(152,022)	(1,895,502)
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>11,029,197</u>	<u>2,881,507</u>	<u>13,910,704</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 9,285,717</u>	<u>\$ 2,729,485</u>	<u>\$ 12,015,202</u>

(continued)

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2008		
	Unrestricted	Temporarily Restricted	2008 Total
<u>SUPPORT AND REVENUE</u>			
Support			
Grants and contributions	\$ 516,274	\$ 394,920	\$ 911,194
Revenue			
Interest and other income	65,268	-	65,268
Total support and revenue	<u>581,542</u>	<u>394,920</u>	<u>976,462</u>
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>			
	<u>533,267</u>	<u>(533,267)</u>	<u>-</u>
<u>EXPENSES</u>			
Development	15,869	-	15,869
Administration	1,407,130	-	1,407,130
Building operations	726,106	-	726,106
Programs	186,067	-	186,067
Total expenses	<u>2,335,172</u>	<u>-</u>	<u>2,335,172</u>
<u>CHANGE IN NET ASSETS</u>	(1,220,363)	(138,347)	(1,358,710)
<u>NET ASSETS AT BEGINNING OF YEAR</u>	12,249,560	3,019,854	15,269,414
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 11,029,197</u>	<u>\$ 2,881,507</u>	<u>\$ 13,910,704</u>

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ (1,895,502)	\$ (1,358,710)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	937,589	404,393
Write off of pledge receivable	-	4,975
Discount on pledge receivable	(5,769)	(5,745)
Write off of due to Arts Council of New Orleans	(16,047)	-
Net change in operating assets and liabilities:		
Pledges receivable	126,938	110,092
Other Assets	56,359	(918)
Accrued liabilities	796,822	794,120
Net cash provided by (used in) operating activities	<u>390</u>	<u>(51,793)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments for property, plant, and equipment	(2,869)	(60,377)
Cash paid to restricted debt fund	-	(9,586)
Net cash used in investing activities	<u>(2,869)</u>	<u>(69,963)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from line of credit	769	-
Principal payments	-	(92)
Net cash provided by (used in) financing activities	<u>769</u>	<u>(92)</u>
<u>NET DECREASE IN CASH</u>	(1,710)	(121,848)
<u>CASH AT BEGINNING OF YEAR</u>	<u>13,458</u>	<u>135,306</u>
<u>CASH AT END OF YEAR</u>	<u>\$ 11,748</u>	<u>\$ 13,458</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for:		
Interest	<u>\$ 182,969</u>	<u>\$ 70,218</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operations

The Louisiana Artist Guild (the Guild) a non-profit was incorporated in 1995 (amended on November 12, 2008) to plan, create, encourage, promote, nurture, produce and provide access to the activities, economic environment, physical environment and educational showcase of individual Louisiana artists and the arts in Louisiana. The Guild, dba Louisiana Artworks has developed and constructed a five story (93,000 sq. ft facility) multi-use arts complex in New Orleans, devoted to providing access to visual artists at work, an educational resource center, and a public venue. Substantial completion of the first three floors has provided active programming and operations in the building since May 2008. Funds are in place for the hard cost to complete the remaining two floors, and management is seeking funding sources for the soft costs.

2. Going Concern Consideration

At December 31, 2009, current unrestricted liabilities exceed current unrestricted assets by \$14,918,749. The general contractor of the arts complex halted construction in November 2004 and construction resumed in June 2007. The arts complex is the Guild's major operating asset. The arts complex began limited operations in 2009. Pending completion of construction, its commencement of full operations is uncertain at this time. The Guild defaulted on its debt agreements and was required to negotiate settlements, obtain waivers of the provisions of those agreements, or obtain other sources of financing subsequent to year end. A waiver was not obtained for one of the debt agreements and an additional debt agreement was in default subsequent to year end. Temporarily restricted funds of \$2,729,485 are insufficient to pay outstanding amounts for the defaulted debt agreements and fund administrative costs including payroll. These factors create an uncertainty about the Guild's ability to continue as an ongoing concern.

Management of the Guild is doing extensive fundraising and is working with the City of New Orleans and State of Louisiana to provide the cash flow necessary to complete the project. The ability of the Guild to continue as a going concern is dependent on successful negotiations with the City, State, and financing institutions.

The financial statements do not include any adjustments that might be necessary if the Guild is unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Method of Accounting

The financial statements are prepared on the accrual basis of accounting.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Net Assets Classification

Accounting Standards Codification (ASC) No. 958 entitled "Not-for-Profit Entities" requires that net assets and changes in net assets be reported for three classifications – permanently restricted, temporarily restricted and unrestricted – based on the existence or absence of donor imposed restrictions. Unexpended funds solicited through the Capital Campaign are considered temporarily restricted.

Gifts, Grants and Bequests

Gifts, grants and bequests are recorded as revenues in the period received and as assets, or as decreases in liabilities or expenses depending on the form of benefits received. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk free market interest rates. There is no allowance for uncollectible pledges because management believes all amounts recorded are collectible. Non-cash gifts, grants and bequests are recorded as revenue at the fair market value at the date contributed, if an objective valuation is determinable.

Donated Services

Support arising from donated services is recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. During the year ended December 31, 2009, the Agency and Subsidiaries recognized approximately \$56,000 of donated services which are reflected in administrative expense in the statements of activities and changes in net assets. The Guild received other donated services in its various programs during the years ended December 31, 2009 and 2008. These services provided do not meet either criteria described above and are not reflected in the statements of activities and changes in net assets.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Equipment consists primarily of studio equipment for the arts complex and office equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to five years. Depreciable assets are valued at their cost if purchased or their estimated fair value at the time of donation if contributed.

Depreciation for the building is computed using the straight-line method over the estimated useful life of the building of thirty-nine years.

Concentration of Credit Risk

Financial instruments that potentially expose the Guild to concentrations of credit and market risk consist primarily of cash equivalents. Cash equivalents are maintained at high-quality financial institutions, and credit exposure is limited at any one institution.

The Guild had cash deposits in excess of federally insured limits at a local institution totaling \$561,046 at December 31, 2009.

Income Taxes

The Guild is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

In July 2006, the FASB issued *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting and disclosure for uncertain tax positions. This interpretation requires companies to use a prescribed model for assessing the financial statement recognition and measurement of all tax positions taken or expected to be taken in tax returns. The Guild applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities.

As a result of implementing this approach, the Guild has reviewed its tax positions and determined there were no outstanding or retrospective tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities; therefore implementation of this standard has not had a material effect on the Guild.

The Guild's tax returns for the years ended December 31, 2009, 2008, and 2007 remain open and subject to examination by taxing authorities.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, the Guild considers all investments with an original maturity of ninety days or less to be cash equivalents.

Advertising

The Guild records advertising as expenses when the costs are incurred. Costs of producing advertisements such as the costs of idea development, writing advertising copy, artwork, printing, audio and video crews and other costs are expensed as incurred during production. Costs of communicating advertisements that have been produced, such as the costs of magazine space, television airtime, billboard space and distribution are expensed when the item or service is received or provided. Advertising expenses in 2009 and 2008 were \$5,495 and \$7,811 respectively.

4. Pledges Receivable

Pledges receivable at December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 2,790,338	\$ 2,917,276
Less discounts to net present value – rate 4.50%	-	(5,769)
Net pledges receivable at year end	<u>\$ 2,790,338</u>	<u>\$ 2,911,507</u>

Included in pledges receivable at December 31, 2009 and 2008 is approximately \$2,697,000 from the State of Louisiana. State funds have been recognized as revenue when they are classified by the State as a priority one or two project in the State's capital appropriation budget. State funds with a higher numbered priority are classified as conditional pledges and not realized as revenue.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5. Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Building	\$ 25,463,968	\$ 25,461,099
Studio and other equipment	693,552	693,552
Office equipment	142,271	142,270
Machinery	18,104	18,104
Furniture and fixtures	8,430	8,430
Less accumulated depreciation	26,326,325	26,323,455
	<u>(1,372,350)</u>	<u>(434,760)</u>
Net property and equipment	<u>\$ 24,953,975</u>	<u>\$ 25,888,695</u>

6. Loans Payable

The Guild has outstanding balances on lines of credit with local financial institutions of \$2,526,048 and \$2,525,279 at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, interest is due monthly at rates ranging from 3.25% to 7.25%.

The Guild has a balance of \$2,360,596 on a \$3,000,000 line of credit as of December 31, 2009 and 2008, which became due on December 28, 2008. The Guild has not made any principal or interest payments on the line of credit and is in default of the line of credit. The accrued interest on the line of credit is \$337,831 and \$166,688 at December 31, 2009 and 2008, respectively. In June 2010, the Guild entered into a settlement agreement resulting in the full payment of the collateral mortgage. See Note 9.

The Guild has a balance of \$165,452 on a \$250,000 line of credit which is due on June 20, 2010. The Guild received an extension on the line of credit to July 20, 2010, and is currently in default on the line of credit. See Note 9.

The Guild obtained a HUD Section 108 Loan in the amount of \$7,100,000 from the City of New Orleans (City) to be used solely for the development and construction of the ArtWorks project. The maturity date of the loan is July 15, 2022. The terms of the note require interest to be paid quarterly. Principal is payable in quarterly installments which began October 15, 2003. The specified interest rate is 6.62%; however, the City elected to defer collection of 1% during the period of construction. The quarterly payments of principal and interest are in the amount of \$152,587, and quarterly principal payments range from approximately \$53,000 to \$150,000 during the life of the loan. The Guild, however, has not made any interest or principal payments since October 15, 2003 and is technically in default of the loan.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6. Loans Payable (continued)

In order to secure the repayment of the loan and other amounts to the City, the Guild has deposited funds into the Debt Service Reserve Account and the Construction Account. These funds are held in escrow accounts at a local financial institution. All amounts held in the Debt Service Reserve Account and the Construction Account serve as security for amounts due to the City by the Guild pursuant to the Loan Agreement. In addition, the land, building construction, accounts, inventory, furniture, fixtures and equipment are collateral for the debt as well as future income and rentals.

The debt repayment is as follows:

Fiscal year ending December 31,	2010	\$	1,823,428
	2011		323,602
	2012		342,170
	2013		361,803
	2014		382,562
	2015 and thereafter		3,813,573
		\$	<u>7,047,138</u>

The accrued interest on the HUD Section 108 loan was \$2,458,182 and \$2,062,132 as of December 31, 2009 and 2008, respectively, and the past due principal balance was \$1,517,386 and \$1,227,955 as of December 31, 2009 and 2008, respectively. The accrued interest balances are recorded as long-term on the statements of financial position. See Note 9.

For the years ended December 31, 2009 and 2008, the Guild incurred interest expense of \$766,341 and \$775,531, respectively.

7. Related Party Transactions

During the year ended December 31, 2009 a member of management loaned \$15,000 and a board member of the Guild loaned \$20,392 to the Guild for operating expenses. These amounts are included in accrued liabilities on the statements of financial position as of December 31, 2009.

8. Commitments and Contingencies

The general contractor and several of its subcontractors have filed lawsuits against the Guild based on the failure of the Guild to pay for work performed in connection with the art complex. During the year ended December 31, 2007, a settlement agreement was reached with the general contractor in which the Guild agreed to consent judgments for sums owed. The agreement further provides for the general contractor to complete the work and for additional time for the Guild to make payments to the general contractor. If, however, the Guild defaults on its payment schedule, the general contractor will have the rights to execute its consent judgment against the Guild.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (continued)

During the year ended December 31, 2008, two partial consent judgments were reached. The first consent judgment requires the Guild to pay \$1,691,061 to the vendor plus interest at a rate of 8% per annum beginning on April 5, 2007, until paid. The second consent judgment requires the Guild to pay an additional amount of \$545,872 plus interest at the rate of 8% per annum beginning on December 17, 2008, until paid. At December 31, 2009 and 2008, the amount due to the general contractor was \$2,583,637 and \$2,402,196, respectively. This balance is included in accrued liabilities on the statement of financial position. In June 2010, the Guild entered into a final settlement agreement with the general contractor resulting in the final payment in the amount of \$1,906,297. See Note 9.

9. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 16, 2010, and determined that the following events occurred that require disclosure.

The Guild entered into a settlement agreement dated January 21, 2010 with the general contractor of the art complex, whereby the general contractor agreed to accept \$1,906,297 as full and final payment and settlement of all amounts owed on the construction of the art complex. The contractor was paid with \$1,500,000 from the proceeds of the \$2,250,000 LRA loan and \$406,297 received from the State of Louisiana. The amount received from the State of Louisiana is a partial collection of the outstanding receivable balance at December 31, 2009. See Note 4. The final settlement amount was paid to the general contractor in June 2010. The balance owed to the general contractor at December 31, 2009 was \$2,583,637.

The Guild entered into the First Amended Escrow Agreement, dated March 22, 2010 with the City of New Orleans, Louisiana (the City). According to the agreement, the Guild will receive a forbearance of interest payments owed to the City on the HUD loan for three years from the effective date of HUD's approval. Upon expiration of this forbearance agreement, the City will forgive all principal and interest payments previously owed by the Guild as permitted by law and approved by HUD. The result of the agreement would be to reduce the total balance, at the end of the three year forbearance period, due the City on the HUD loan to approximately \$4,500,000. The total balance owed at December 31, 2009, including interest, was \$ 9,505,320. As of the date that the financial statements were available to be issued, November 16, 2010, HUD has not approved the forbearance agreement.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

9. Subsequent Events (continued)

In June 2010, the Guild entered into a loan agreement with the Louisiana Recovery Authority (LRA) in the amount of \$2,250,000. If certain conditions are met on the maturity date of June 11, 2018, \$1,500,000 of the loan balance will be forgiven. The loan bears no interest. After the maturity, whether that maturity results from acceleration or otherwise, and after the declaration of the Guild's default, interest shall, to the extent permitted by law, accrue at the default rate. The default rate will be the maximum rate authorized by the applicable law, and if the applicable law establishes no maximum rate, then the interest rate will be 18%. The loan proceeds were used to fund the final payment to the general contractor of the art complex and with a local financial institution, as described below.

In addition, the Escrow Agreement signed in 2002, was amended so that all amounts held in the Debt Service Reserve Account in excess of \$650,000 will be distributed to the Guild. The balance in the Reserve Account at December 31, 2009 was \$740,413. The remaining \$650,000 will be distributed to the City in two payments of \$325,000. These payments to the City shall be used exclusively to pay unpaid debt service owed by the Guild on the HUD loan. In addition, all amounts held in the Construction Fund of the Escrow Fund will be distributed to the Guild. The balance in the Construction Fund at December 31, 2009 was \$70,633.

On June 9, 2010, the Guild entered into a settlement agreement with a local financial institution, whereby the financial institution agreed to accept \$750,000 as full and complete satisfaction of the collateral mortgage liability. The balance owed on the mortgage at December 31, 2009, including interest, was \$2,698,427. The settlement amount was paid on June 16, 2010 using \$750,000 of the proceeds from the \$2,250,000 LRA loan.

In July 2010, a line of credit with a local financial institution expired, and the Guild is currently in default. The balance on the line of credit at December 31, 2009 was \$165,452.

In September 2010, the Arts Council of New Orleans (ACNO), a former affiliated organization agreed to forgive in full the total liability owed ACNO by the Guild. The balance at December 31, 2009 was \$1,489,922.

In 2010 the aggregate effect of the loan and debt agreements discussed above and completed by the date of the independent auditors report were the reduction of current liabilities by approximately \$5,200,000.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS

DECEMBER 31, 2009



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LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS

DECEMBER 31, 2009

LOUISIANA ARTISTS GUILD
New Orleans, Louisiana

Single Audit Reports

December 31, 2009

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Louisiana Artists Guild

We have audited the financial statements of the Louisiana Artists Guild (the Guild) as of and for the year ended December 31, 2009, and have issued our report thereon dated November 16, 2010, which expressed a disclaimer of opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Guild's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Guild's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Guild's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Guild's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-1 and 2009-2.

The Guild's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Guild's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, State of Louisiana Legislative Auditor's Office, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Metairie, Louisiana
November 16, 2010





**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors
Louisiana Artists Guild

Compliance

We have audited the compliance of the Louisiana Artists Guild (the Guild) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The Guild's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Guild's management. Our responsibility is to express an opinion on the Guild's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Guild's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Guild's compliance with those requirements.

In our opinion, the Guild complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-4.

Internal Control Over Compliance

The management of the Guild is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Guild's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Guild's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guild as of and for the year ended December 31, 2009, and have issued our report thereon dated November 16, 2010, which expressed a disclaimer of opinion. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Guild's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Guild's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, State of Louisiana Legislative Auditor's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:313, this report is distributed by the Legislative Auditor as a public document.

Booth Tharante & Nettieville

Metairie, Louisiana
November 16, 2010



**LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Federal Grantor/Pass through/Program Title</u>	<u>CFDA Number</u>	<u>Pass through Entity (identifying number outstanding)</u>	<u>Federal expenditures</u>
United States Department of Housing and Urban Development Pass through from City of New Orleans Community Development Block Grants Section 108 Loan Guarantees	14.248	Loan # BA Series 2002-A Note B-01-MC-22-0006-A	\$ 7,047,138 (2)
National Endowment for the Arts Promotion of the Arts - Grants to Organizations and Individuals - ARRA	45.024		40,000
Total Federal Awards			<u>\$ 7,087,138</u>

FOOTNOTES

(1) Basis of Presentation

This schedule includes the activity of the federal awards of the Louisiana Artist Guild and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Amount of loan and guarantee at December 31, 2009.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: disclaimer
- (b) Internal control over financial reporting:
 - Material weakness identified: yes
 - Significant deficiency identified not considered to be a material weakness: no
 - Noncompliance material to the financial statements noted: no

(2) Federal Awards

- (a) Internal control over major programs:
 - Material weakness identified: no
 - Significant deficiency identified not considered to be a material weakness: no
- (b) The type of report issued on compliance for major programs: unqualified
- (c) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes
- (d) Major program:

<u>Name of Federal Program</u>	<u>CFDA No.</u>
Community Development Block Grants	
Section 108 Loan Guarantees	14.248

- (e) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 - (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no
- (3) Findings Relating to the Financial Statements Reported In Accordance with *Government Auditing Standards*: yes
- (4) Findings and Questioned Costs Relating to Federal Awards: yes

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards

2009-1 Timely Submission of Audit Report to Legislative Auditor

Criteria: Under Louisiana statute, the Guild is required to have an annual audit of its financial statements prepared in accordance with US generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30 of each year.

Condition: The Guild did not meet the June 30, 2010 deadline for reporting to the State of Louisiana.

Cause: The audit was scheduled for early June 2010 and required additional time was required to receive responses for third party audit confirmations. Also, additional time was required to obtain forgiveness of debt and attempt to obtain approval from the Department of Housing and Urban Development (HUD) of a forbearance agreement between the Guild and the City of New Orleans related to the \$7,047,138 HUD Section 108 loan or a waiver from the City of New Orleans for this loan.

Effect: The inability to receive the third party audit confirmations, obtain approval for forgiveness of debt, and obtain a waiver from the City of New Orleans on the HUD Section 108 loan in a timely manner resulted in the audit completion date being delayed.

Recommendation: No specific recommendation.

Management's Response and corrective actions: The audit will be scheduled earlier in the year and/or audit confirmations need to be mailed sooner to allow more time for responses to meet the deadline.

2009-2 Default on Line of Credit

Criteria: Debt payments are to be made timely.

Condition: The Guild was in default on a \$2,360,596 line of credit, with accrued interest due of \$337,831, from a local financial institution at December 31, 2009. The note matured on December 28, 2008 and no payments have been made as from this date through December 31, 2009.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards (continued)

2009-2 Default on Line of Credit (continued)

Cause: Due to cash flow problems the Guild has been unable to meet the debt requirements.

Effect: The loan was in default according to its terms during the year ended December 31, 2009.

Recommendation: We recommend that the Guild resolve the existing default condition with the financial institution.

Management's Response and corrective actions: The Guild reached an agreement with the local financial institution in June 2010 to settle and pay the debt in full in the amount of \$750,000.

2009-3 Building

Criteria: Generally accepted accounting principles require the Property, Plant and Equipment be evaluated for impairment under certain conditions.

Condition: The Guild's Property, Plant and Equipment construction was substantially delayed and incurred substantial costs over the original estimate.

Cause: Delays in construction before and after Hurricane Katrina changed requirements for construction, which caused this condition.

Effect: The Property, Plant and Equipment may require write-down to fair value to be in conformity with generally accepted accounting principles.

Recommendation: The Guild should consider an appraisal or other form of valuation.

Management's Response and corrective actions: Management is in process of determining if an effective valuation can be obtained.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Part II - Findings and Questioned Costs relating to Federal Awards

2009-4 Default On HUD Section 108 Loan

Criteria: Loan payments are due and payable quarterly.

Condition: The Guild has a \$7,047,138 loan from the City of New Orleans, Louisiana (the City) funded by HUD. The loan covenant requires quarterly payments in the amount of \$152,587 per quarter. The Guild's last payment was for the quarter payment due October 15, 2003.

Cause: Due to cash flow problems resulting from Hurricane Katrina, the reduction in contributions, and an increase in construction costs, the Guild has been unable to meet the debt requirements.

Effect: The loan is in default.

Recommendation: We recommend that the Guild either meet its current principal and interest obligations or obtain a waiver in a timely manner.

Management's Response and corrective actions: The Guild is in negotiations with the City to obtain a waiver. In addition, the Guild entered into the First Amended Escrow Agreement, dated March 22, 2010 with the City. According to the agreement, the Guild will receive a forbearance of interest payments owed to the City on the HUD loan for three years from the effective date of HUD's approval. HUD has not yet approved the agreement.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards

2008-1 Internal Control Over Financial Reporting

Condition: P&N proposed adjusting entries.

Current Status: Resolved

2008-2 Timely Submission of Audit Report To Legislative Auditor

Condition: The audit report was submitted to the Louisiana Legislative Auditor beyond the required six months following the fiscal year end. Extensions request were submitted to extend the due date to November 15, 2008.

Current Status: Unresolved. See 2009-1.

2008-3 Default on Line of Credit

Condition: The Guild was in default on a \$2,360,596 line of credit, with accrued interest due of \$166,688, from a local financial institution at December 31, 2008. The note matured on December 28, 2008 and no payments have been made as from this date through December 31, 2008.

Current Status: Unresolved at December 31, 2009. See 2009-2. The finding was subsequently resolved in 2010 as the line of credit was paid in full.

2008-4 Building

Condition: The Guild's Property, Plant and Equipment construction was substantially delayed and incurred substantial costs over the original estimate. The Property, Plant and Equipment may require write-down to fair value to be in conformity with generally accepted accounting principles.

Current Status: Unresolved. See 2009-3.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part II - Findings and Questioned Costs relating to Federal Awards

2005-3 Default On HUD Section 108 Loan

Condition: The Guild has a \$7,047,138 loan from the City of New Orleans funded by HUD. The loan covenant requires quarterly payments in the amount of \$152,587 per quarter. The Guild's last payment was for the quarter payment due October 15, 2003. The principal and interest payments totaling \$610,348 for each of the years ending 2004 and 2005 were waived through December 31, 2005 by the City of New Orleans in a letter dated April 27, 2005, revised June 2, 2005. Subsequent to the year ended December 31, 2005, the Guild was in default on the loan covenant until a waiver was obtained on January 22, 2007 for the principal and interest payments due through December 31, 2007.

Current Status: Unresolved. See 2009-4.

2008-5 Physical Inventory of Equipment

Condition: The Guild did not perform a physical inventory of equipment acquired under the HUD Section 108 Loan Guarantees for the years ending December 31, 2004, December 31, 2005, December 31, 2006, December 31, 2007, or December 31, 2008.

Current Status: Resolved